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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

OMB APPROVAL	
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SEC FILE NUMBER
8- 53458

**FACING PAGE****Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**REPORT FOR THE PERIOD BEGINNING July 1, 2005 AND ENDING June 30, 2006  
MM/DD/YY MM/DD/YY**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Western Growers Financial Services

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

17620 Fitch Street

(No. and Street)

Irvine,California92614

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Judy Chang, FINOP(949) 885-2395

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Breard & Associates, Inc.

(Name - if individual, state last, first, middle name)

9010 Corbin Avenue, Suite 7NorthridgeCalifornia91324

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

**PROCESSED****SEP 15 2006**

FOR OFFICIAL USE ONLY

**THOMSON  
FINANCIAL**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (3-91)

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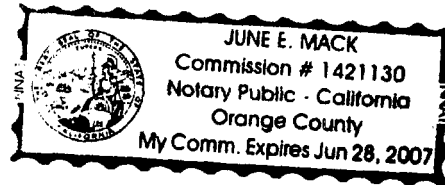
## OATH OR AFFIRMATION

I, Lori Duquette, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Western Growers Financial Services, as of June 30, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

State of CALIFORNIA  
County of ORANGE  
Subscribed and sworn (or affirmed) to before me this 25 day of AUGUST, 2006

Jane E. Mack  
Notary Public

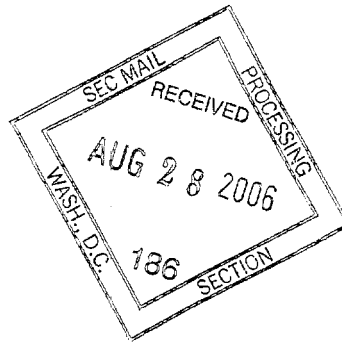
Lori Duquette  
Signature  
Chief Compliance Officer  
Title



This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in ~~Financial Condition~~ Cash Flows
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



**Western Growers Financial Services**

**Report Pursuant to Rule 17a-5 (d)**

**Financial Statements**

**For the Year Ended June 30, 2006**

**BREARD & ASSOCIATES, INC.**  
Certified Public Accountants

Independent Auditor's Report

Board of Directors  
Western Growers Financial Services

We have audited the accompanying statement of financial condition of Western Growers Financial Services as of June 30, 2006, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Growers Financial Services as of June 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Schedules I-III is presented for purposes of additional analysis and is not required as part of the basic financial statements, but as supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subject to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole and in conformity with the rules of the Securities and Exchange Commission.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
August 2, 2006

***We Focus & Care<sup>SM</sup>***

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Northridge, California 91324  
(818) 886-0940 • Fax (818) 886-1924  
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**Western Growers Financial Services**  
**Statement of Financial Condition**  
**June 30, 2006**

**Assets**

Cash and cash equivalents	\$ 104,132
Deposit with clearing firm	25,000
Commissions receivable	150,498
Marketable securities, at market	80,783
Receivable from related parties	15,000
Prepaid expenses	6,151
Deposits	<u>463</u>
<b>Total assets</b>	<b><u>\$ 382,027</u></b>

**Liabilities and Stockholder's Equity**

**Liabilities**

Accounts payable	\$ 104,874
Accrued payroll expenses	21,832
Payable to related parties	<u>31,710</u>
<b>Total liabilities</b>	158,416

**Stockholder's equity**

Common stock, no par value; 1,000 shares authorized, issued and outstanding	10,000
Retained earnings	<u>213,611</u>
<b>Total stockholder's equity</b>	<u>223,611</u>
<b>Total liabilities and stockholder's equity</b>	<b><u>\$ 382,027</u></b>

*The accompanying notes are an integral part of these financial statements.*

**Western Growers Financial Services**  
**Statement of Income**  
**For the Year Ended June 30, 2006**

**Revenues**

Commissions	\$ 1,069,249
Management and fee based income	62,464
Interest income	3,572
Unrealized gains (losses) on marketable securities	<u>6,370</u>
<b>Total revenues</b>	<b>1,141,655</b>

**Expenses**

Employee compensation and benefits	298,910
Commissions and floor brokerage fees	174,529
Occupancy and equipment rental	28,706
Taxes, licenses & fees other than income taxes	28,527
Other operating expenses	<u>330,993</u>
<b>Total expenses</b>	<b><u>861,665</u></b>

<b>Income before income tax provision</b>	<b>279,990</b>
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<b>Total income tax provision</b>	<b><u>102,950</u></b>
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<b>Net income</b>	<b><u><u>\$ 177,040</u></u></b>
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*The accompanying notes are an integral part of these financial statements.*

**Western Growers Financial Services**  
**Statement of Changes in Stockholder's Equity**  
**For the Year Ended June 30, 2006**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance on June 30, 2005	\$ 10,000	\$ 70,070	\$ 86,571	\$ 166,641
Return of equity	—	(70,070)	—	(70,070)
Dividends	—	—	(50,000)	(50,000)
Net income	<u>—</u>	<u>—</u>	<u>177,040</u>	<u>177,040</u>
Balance on June 30, 2006	<u>\$ 10,000</u>	<u>\$ —</u>	<u>\$ 213,611</u>	<u>\$ 223,611</u>

*The accompanying notes are an integral part of these financial statements.*

**Western Growers Financial Services**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2006**

**Cash flows from operating activities:**

Net income		\$ 177,040
Adjustments to reconcile net income to cash and cash equivalents provided by (used in) operating activities:		
Valuation of marketable securities to market	\$ (6,370)	
(Increase) decrease in:		
Commissions receivable	(59,642)	
Prepaid expenses	4,798	
(Decrease) increase in:		
Accounts payable	21,246	
Accrued payroll expenses	<u>783</u>	
Total adjustments		<u>(39,185)</u>
<b>Net cash and cash equivalents provided by (used in) operating activities</b>		<b>137,855</b>

**Cash flows from investing activities:**

—

**Cash flows from financing activities:**

Loans made to related parties	(13,575)	
Repayment of loans from related parties	(2,836)	
Return of equity	(70,070)	
Dividends	<u>(50,000)</u>	
<b>Net cash and cash equivalents provided by (used in) financing activities</b>		<b><u>(136,481)</u></b>

Net increase (decrease) in cash and cash equivalents	1,374
Cash and cash equivalents at beginning of year	<u>102,758</u>
Cash and cash equivalents at end of year	<u><u>\$ 104,132</u></u>

**Supplemental disclosure of cash flow information:**

Cash paid during the year for		
Interest	\$	—
Income taxes	\$	—

*The accompanying notes are an integral part of these financial statements.*

**Western Growers Financial Services**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

Western Growers Financial Services (the "Company"), was incorporated on June 21, 2000 in the State of California, as the wholly-owned subsidiary of Western Growers Service Corp. (the "Parent"). Western Growers Service Corp. is in turn the wholly-owned subsidiary of Western Growers Association ("WGA"). The Company is an institutional and retail, brokerage firm selling mutual funds, variable annuities and providing advisory services. Currently, the Company primarily operates its advisory services with agricultural organizations which are affiliated with WGA. The Company is a member of the National Association of Broker Dealers ("NASD"), the Municipal Securities Rulemaking Board ("MSRB") and the Securities Investors Protection Corporation ("SIPC").

The Company operates its brokerage business on a fully-disclosed basis, whereby the Company does not hold customer funds and/or securities, whereby the execution and clearance of trades are handled by another broker/dealer.

*Summary of Significant Accounting Policies*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimate amounts.

Securities transactions are recorded on a settlement date basis. Proprietary transactions, commission revenues and the related expenses are recorded on a trade date basis.

Management fees and advisory income are recognized when earned, along with corresponding expenses.

For purposes relating to the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company also includes money market accounts as cash equivalents.

The Company has adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). As such, marketable securities held by the Company at June 30, 2006, are classified as trading securities and stated at their fair market value based on quoted market prices. Realized gains or losses from the sale of marketable securities are computed based on specific identification of historical cost. Unrealized gains or losses on marketable securities are computed based on specific identification of recorded cost, with the change in fair value during the period included in income.

**Western Growers Financial Services**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

Advertising and promotional cost are charged to operations when incurred. At June 30, 2006, advertising and promotional cost totaled \$3,863, and are included in other operating expenses.

The operations of the Company are included in the consolidated income tax returns filed by the Parent. Income taxes are calculated as if the Company filed on a separate basis and the amount of current tax and/or benefit calculated is either remitted to or received from the Parent.

Income taxes are provided for the tax effects of transactions reported on the financial statements and consist of taxes currently due or refundable plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to the investments in marketable securities, and accruals of paid time-off for employees.

**Note 2: MARKETABLE SECURITIES, AT MARKET VALUE**

The Company holds investments classified as trading securities recorded at fair market value in the amount of \$80,783, with a cost basis of \$77,923, as of June 30, 2006. In the current year, the Company has recognized an unrealized gain of \$6,370. These securities are currently comprised of mutual funds only.

**Note 3: INCOME TAXES**

As discussed in note 1, the Company is a wholly-owned subsidiary and is included in the consolidated income tax returns filed by its parent. A portion of the consolidated income tax liability is allocated to the Company as if the Company had filed separate income tax returns.

The provision for income tax expense at June 30, 2006, is comprised of the following:

Current income tax expense	
Federal	\$ 88,250
State	14,700
Total current income tax expense	102,950
Deferred income tax expense	—
Total provision for income tax expense	<u>\$ 102,950</u>

Deferred income taxes result from the recognition of certain income and expense items for tax purposes in different years than for financial reporting purposes.

**Western Growers Financial Services**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 4: RELATED PARTY TRANSACTIONS**

The Company shares office space with its Parent, WGA, and several other affiliated companies to WGA. The Company pays its own compliance expenses related to its brokerage business and has a written agreement with WGA, whereby the Company reimburses either WGA or the Parent for its portion of substantially all of the remaining operating expenses, including the rental of office space, staff and various equipment. These amounts have been included in the accompanying statement of operations in employee compensation and benefits, occupancy and equipment rental, communications, taxes, licenses & fees, other than income taxes, other operating expenses and the income tax provision.

During the year ended June 30, 2006, the Company returned \$70,070 of additional paid-in capital to the Parent.

All receivables and payables to related parties are non-interest bearing and due on demand.

The Company has signed a licensing agreement with WGA, whereby the Company will pay a royalty fee to WGA for the goodwill derived from the use of the Western Growers name. The amount of the royalty fee was \$20,545 for the year ended June 30, 2006.

**Note 5: EMPLOYEES BENEFIT PLAN**

The Company participates with various affiliates in a defined contribution pension plan which covers all employees who have completed one year of service. The Company contributed for each participant an amount equal to 7% of the participants annual compensation. The Company also provides a 401(k) plan which allows eligible employees to contribute a percentage of their compensation, subject to Internal Revenue Service limitations, of which the Company will match up to 3% of the employee's compensation.

For the year ended June 30, 2006, the Company contributed \$24,115 into these plans.

**Note 6: CONCENTRATIONS OF CREDIT RISK**

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty, with which it conducts business.

**Western Growers Financial Services**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS**

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*" ("FAS 123R"), which requires the measurement and recognition of compensation expense for all stock-based compensation payments including grants of employee stock options. Stock options are a valuable and important tool used by many companies as a means to motivate employees and promote business growth. This statement eliminates the ability to account for such share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, "*Accounting for Stock Issued to Employees*," and requires that such transactions be reflected in the financial statements based upon the estimated fair value of the awards. In addition, there are a number of other requirements under the new standard that will result in differing accounting treatment than currently required. These differences include, but are not limited to, the accounting treatment for the tax benefit on employee stock options and for stock issued under an employee stock purchase plan. FASB 123R becomes effective for all reports issued after June 15, 2005. Adoption of the new standard has not had a material effect upon the financial statements of the company.

**Note 8: NET CAPITAL**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Net capital and aggregate indebtedness change day to day, but on June 30, 2006, the Company had net capital of \$189,168 which was \$178,607 in excess of its required net capital of \$10,561; and the Company's ratio of aggregate indebtedness (\$158,416) to net capital was 0.84 to 1, which is less than the 15 to 1 maximum ratio allowed for a broker/dealer.

**Note 9: RECONCILIATION OF AUDITED NET CAPITAL TO UNAUDITED FOCUS**

There was a \$9,436 difference between the computation of net capital under net capital Sec. Rule 15c3-1 and the corresponding unaudited focus part IIA.

Net capital per unaudited schedule		\$ 179,732
Adjustments:		
Retained earnings	\$ 17,380	
Non-allowable assets	<u>(7,944)</u>	
Total adjustments		<u>9,436</u>
Net capital per audited statements		<u>\$ 189,168</u>

**Western Growers Financial Services**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**As of June 30, 2006**

**Computation of net capital**

**Stockholder's equity**

Common stock	\$ 10,000	
Retained earnings	<u>213,611</u>	
<b>Total stockholder's equity</b>		\$ 223,611

**Adjustments to stockholder's equity**

Excess fidelity bond deductible	<u>(5,000)</u>	
<b>Total net worth</b>		218,611

**Less: non-allowable assets**

Receivable from related parties	(15,000)	
Prepaid expenses	(6,151)	
Deposits	<u>(463)</u>	
<b>Total non-allowable assets</b>		<u>(21,614)</u>

**Tentative net capital** 196,997

**Less: haircuts and undue concentration**

Haircuts on mutual funds	<u>(7,829)</u>	
<b>Total haircuts and undue concentration</b>		<u>(7,829)</u>

**Net capital** 189,168

**Computation of net capital requirements**

Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$ 10,561	
Minimum dollar net capital required	5,000	
<b>Net capital required (greater of above)</b>		<u>10,561</u>

**Excess net capital** \$ 178,607

Ratio of aggregate indebtedness to net capital 0.84:1

There was a \$9,436 difference between net capital shown here and net capital as reported on the Company's unaudited Form X-17A-5 report dated June 30, 2006. See Note 9.

*See independent auditor's report.*

**Western Growers Financial Services**  
**Schedule II - Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of June 30, 2006**

A computation of reserve requirement is not applicable to Western Growers Financial Services as the Company qualifies for exemption under Rule 15c3-3 (k)(2)(ii).

*See independent auditor's report.*

**Western Growers Financial Services**  
**Schedule III - Information Relating to Possession or Control**  
**Requirements Under Rule 15c3-3**  
**As of June 30, 2006**

Information relating to possession or control requirements is not applicable to Western Growers Financial Services as the Company qualifies for exemption under Rule 15c3-3 (k)(2)(ii).

*See independent auditor's report.*

**Western Growers Financial Services**  
**Supplementary Accountant's Report**  
**on Internal Accounting Control**  
**Report Pursuant to 17a-5**  
**For the Year Ended June 30, 2006**

**BREARD & ASSOCIATES, INC.**  
Certified Public Accountants

Board of Directors  
Western Growers Financial Services

In planning and performing our audit of the financial statements and supplemental schedules of Western Growers Financial Services (the Company), for the year ended June 30, 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

*i*

***We Focus & Care***<sup>SM</sup>

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Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we considered to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at June 30, 2006 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, National Association of Securities Dealers, Inc. and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
August 2, 2006